~~ESSEX GAS COMPANY~~

~~DISTRIBUTION ADJUSTMENT COST CLAUSE~~

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~~7.01 Purpose~~

~~The purpose of this clause is to establish procedures that allow Essex Gas Company ("Essex" or the "Company") subject to the jurisdiction of the Department of Telecommunications and Energy ("Department") to adjust, on a semiannual basis, its rates for firm gas sales and transportation service in order to recover environmental response costs, unbundling costs, FERC Order 636 transition costs, and demand side management costs, as well as to return interruptible transportation sales margins.~~

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~~**7.02 Applicability**~~

~~This Distribution Adjustment Cost Clause ("DACC") shall be applicable to all of Essex's firm sales and transportation customers. The application of the clause may, for good cause shown, be modified by the Department. See Section 7.13, "Other Rules."~~

~~**7.03 Environmental Response Costs Allowable for DACC**~~

~~**7.03.01 Purpose**~~

~~The purpose of this provision is to establish a procedure that allows Essex subject to the jurisdiction of the Department to adjust, on an annual basis, its rates for the recovery from its firm sales and transportation customers environmental response costs associated with manufactured gas plants.~~

~~**7.03.02 Applicability**~~

~~A Remediation Adjustment Cost ("RAC") charge shall be applied to sales and transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 7.03 of this clause. Such RAC shall be determined annually by the Company as defined below, subject to review and approval by the Department as provided for in this clause.~~

~~**7.03.03 Environmental Cost Allowable**~~

~~All environmental response costs associated with manufactured gas plants, adjusted for deferred tax benefits, and one half of the expenses incurred by the Company in pursuing insurance and third party claims, less one-half of any recoveries received by the Company as a result of such claims may be included in the DACC.~~

~~The total annual charge to the Company's ratepayers for Environmental Response Costs during any Remediation Cost Recovery Year shall not exceed five percent (5%) of the company's total revenues from firm gas sales during the preceding calendar year. If this limitation results in the Company recovering less than the amount that would otherwise be recovered in a particular Remediation Cost Recovery Year, then beginning with the date upon which the annual charge would have been effective, carrying costs shall accrue to the Company upon the unrecovered~~

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~~portion of the Remediation costs that otherwise would have been allowable. Carrying costs shall accrue through the Remediation Cost Recovery Year in which such amount, together with any accumulated carrying cots, is actually recovered by the Company from its ratepayers and shall accrue at the pre-tax weighted cost of capital as defined in Section 7.03.05.~~

~~**7.03.04 Effective Date**~~

~~Prior to the beginning of the billing month of May of each year, the Company will file with the Department for its consideration and approval, the Company's request for a change in the RAC applicable to all firm sales and transportation throughput for the subsequent twelve month period commencing with the billing month of May.~~

~~**7.03.05 Definitions**~~

~~(1) **Pre-tax Weighted Cost of Capital** is the result of the calculation of the weighted cost of capital minus the weighted cost of debt, divided by one minus the combined tax rate, plus the weighted cost of debt.~~

~~(2) **Environmental Response Costs** shall include all costs of investigation, testing, remediation, litigation expenses, and other liabilities relating to manufactured gas plant sites, disposal sites, or other sites onto which material may have migrated, as a result of the operating or decommissioning of Massachusetts gas manufacturing facilities.~~

~~(3) **Deferred Tax Benefit** shall be the unamortized portion of actual environmental response costs multiplied by the Company's effective statutory federal and state income tax rate, and by the Company's tax adjusted cost of capital as approved in its last rate proceeding.~~

~~(4) **Expenses and Recoveries Associated with Insurance and Third-Party Expenses and Recoveries** shall include one-half the expenses incurred by the Company in pursuing insurance and third-party claims and one-half of any recoveries or other benefits received by the Company as a result of such claims.~~

~~**7.03.06 Reconciliation Adjustments**~~

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~~**Calculation of the RAC**~~

~~The RAC consists of one-seventh of the actual response costs incurred by the Company in a calendar year for each year until fully amortized, less a deferred tax benefit, plus one-half of insurance and third-party expenses for the calendar year, less one-half of insurance and third-party recoveries for the calendar year, plus the prior year's RAC reconciliation adjustment. This amount is then divided by the Company's forecast of total firm sales volumes and transportation throughput for the upcoming year.~~

~~The deferred tax benefit is calculated by multiplying the unamortized environmental response costs by the combined tax rate as defined in Section 7.03.5, and by the Company's pre-tax weighted cost of capital as defined in Section 7.03.5.~~

~~**7.03.07 Remediation Adjustment Cost (RAC) Factor Formula**~~

$$\cancel{RAC = \frac{\text{sum}\left(\frac{ERC}{7}\right) - DTB + ((IE-IR) \times .5) + Rrac}{A{:}\ TP_{Vol}}}$$

~~**and:**~~

$$\cancel{DTB = UERC \times TR \times \left(\frac{(CC-CD)}{(1-TR)} + CD\right)}$$

~~**Where:**~~

~~A: TP_{vol} Forecast Annual Throughput Volumes inclusive of all firm sales and transportation throughput~~

~~CC Weighted Cost of Capital~~

~~CD Weighted Cost of Debt~~

~~DTB Deferred Tax Benefit~~

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~~ERC Environmental Response Costs are defined in Section 7.03.~~

~~IE Expenses associated with pursuing Insurance and third-party claims as defined in Section 7.03.~~

~~IR Insurance and third-party Recoveries as defined in Section 7.03.~~

~~RAC Remediation Adjustment Factor as defined in Section 7.03.08.~~

~~Rrac Remediation Adjustment Clause Reconciliation Adjustment - Account 176.6 balanced as outlined in Section 7.03.08.~~

~~TR Combined Tax Rate~~

~~UERC Unamortized Environmental Response Costs~~

~~**7.03.08 Remediation Adjustment (RAC) Factor Calculation**~~

~~(1) The following definitions pertain to the Remediation Adjustment Clause (RAC) reconciliation adjustment calculations:~~

~~(a) **Remediation Adjustment Cost Expenses Allowable Per Formula** shall be:~~

~~i. One seventh of each calendar year's environmental response costs (ERC) as defined in Section 7.03.03, less the deferred tax benefit as defined in Section 7.03.05.~~

~~ii. One-half of insurance and third-party expenses (IE), less one-half of insurance and third-party recoveries (IR).~~

~~(b) **RAC (Remediation Adjustment Cost)** portion of the DAF as computed in Section 7.03.07 is used as the convention for recognizing revenues toward Environmental Response Costs.~~

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~~(2) **Calculation of the Reconciliation Adjustment 176.4**~~

~~Account 176.4 shall contain the accumulated difference between revenues toward environmental response costs as calculated by multiplying the RAC times monthly firm sales volumes and environmental response costs allowable per formula.~~

~~**7.03.09 Application of RAC to Bills**~~

~~The RAC ($ per therm) shall be calculated to the nearest one-hundredth of a cent per therm and will be applied to the monthly firm sales and transportation throughput.~~

~~**7.03.10 Information to be Filed with the Department**~~

~~The annual RAC filing will include copies of all bills and receipts relating to any environmental response costs and expenses related to insurance and third-party recoveries incurred in the preceding calendar year as well as a schedule depicting the particular purpose of the amount of any environmental response costs and expenses related to insurance and third party recoveries incurred in the preceding calendar year.~~

~~**7.04 FERC Order 636 Transition Costs Allowable for DACC**~~

~~**7.04.01 Purpose**~~

~~The purpose of this provision is to establish a procedure that allows Essex Gas Company subject to the jurisdiction of the Department to adjust, on an annual basis, its rates for the recovery from its firm sales and transportation customers FERC Order 636 Transition costs.~~

~~**7.04.02 Applicability**~~

~~The FERC Order 636 Transition Cost charge (TC) shall be applied to all firm sales and transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 7.05 of this clause. Such TC shall be determined annually by the Company as defined below, subject to review and approval by the Department as defined below, subject to review and approval by the Department as provided for in~~

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~~this clause.~~

~~7.04.03 Transition Cost Allowable for DACC~~

~~All costs as defined and approved by the FERC, including: (1) gas supply realignment or GSR costs; (2) stranded costs; and (3) new facilities costs.~~

~~7.04.04 Effective Date~~

~~Prior to the beginning of the billing month of May of each year, the Company will file with the Department for its consideration and approval, the Company's request for a change in the TC applicable to all firm sales and transportation throughput for the subsequent twelve month period commencing with the billing month of May.~~

~~7.04.05 Definitions~~

~~(1) Number of Days Lag is the number of days lag to calculate the purchased gas working capital requirement as defined in the Company's most recent rate case.~~
~~(2) Tax rate is the combined state and federal income tax rate.~~
~~(3) Weighted Cost of Capital is the weighted cost of capital as set in the Company's most recent rate case.~~
~~(4) Weighted Cost of Debt is the weighted cost of debt as set in the Company's most recent rate case.~~
~~(5) Transition Costs are costs incurred by pipelines as a result of the restructuring of their operations and services in compliance with FERC Order 636 as defined by FERC including: (1) gas supply realignment or GSR costs; (2) stranded costs, and (3) new facilities costs.~~

~~7.04.06 Transition Cost (TC) Factor Formula~~

$$\cancel{TCF = \frac{TC + RAtc}{A: TPvol} + WCF_{TC}}$$

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~~**and:**~~

$$\cancel{WCF_{tc} = \frac{\dfrac{(WCA_{tc} \times CC) - (WCA_{tc} \times CD)}{1 - TR}}{A{:}\,TPvol} + WCA_{tc} \times CD + WCR_{tc}}$$

~~**and:**~~

$$\cancel{WCA_{TC} = TC \times \frac{(DL)}{(365)}}$$

~~**Where**:~~

~~A:TPvol~~ ~~Forecast Annual Throughput Volumes inclusive of all firm sales and transportation throughput.~~

~~TC~~ ~~Transition Costs as defined in Section 7.04.05.~~

~~WCA_{TC}~~ ~~Working Capital Transition Costs Allowable for working capital applications as defined in Section 7.04.07.~~

~~WCF_{TC}~~ ~~Per Unit Working Capital Factor allowable per billed annual throughput volume as defined in Section 7.04.07.~~

~~WCR_{TC}~~ ~~Working Capital Reconciliation adjustment associated with transition cost charges - Account 176.15~~

~~RA_{TC}~~ ~~Transition Cost Reconciliation Adjustment - Account 175.15, inclusive of the associated Account 175.15 interest, as outlined in Section 7.03.06.~~

~~CC~~ ~~Weighted Cost of Capital~~

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~~CD Weighted Cost of Debt~~

~~TR Combined Tax Rate~~

~~**7.04.07 Transition Cost Working Capital Allowance**~~

~~**(1) TC Working Capital Allowance Calculation**~~

~~The transition cost working capital allowance shall be calculated as follows: First, Transition Cost Working Capital Requirement is multiplied by the Weighted Cost of Capital Rate to arrive at a Return on Transition Cost Working Capital Requirement. Next, the Interest Portion of the Return on Transition Cost Working Capital is calculated by multiplying the Transition Cost Working Capital Requirement amount by the Weighted Cost of Debt Rate. This amount is then subtracted from the Return on Transition Cost Working Capital to arrive at a Taxable Income Base. The Taxable Income Base is divided by the reciprocal of the combined effective federal and state tax rate to arrive at the Return Requirement Plus Taxes. The sum of the Return Requirement Plus Taxes and the interest portion of the Return on Transition Cost Working Capital is the total Transition cost Working Capital Allowance. This total divided by annual sales volumes equals the per unit Working Capital Factor.~~

~~**(2) TC Working Capital Formulas:**~~

~~As set forth in Section 7.04.06.~~

~~**(3) TC Working Capital Reconciliation Adjustment**~~

~~Account 176.15 shall contain the accumulated difference between the revenues toward transition cost working capital allowance and the actual monthly transition cost working capital allowance costs as calculated from the actual transition costs.~~

~~**7.04.08 Reconciliation Adjustments**~~

~~Account 175.3 shall contain the accumulated difference between revenues toward transition costs as calculated by multiplying the transition cost factor (TCF) times monthly firm sales and transportation throughput and transition costs allowed.~~

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~~**7.04.09 Application of TCF to Bills**~~

~~The TCF ($ per therm) shall be calculated to the nearest one-hundredth of a cent per therm and will be applied to the monthly firm sales and transportation throughput.~~

~~**7.04.10 Information to be filed with the Department**~~

~~Information pertaining to the Transition Costs will be filed with the Department along with the gas cost information as required pursuant to the CGAC and DACC. Required filings include a monthly report providing actual data and resulting updated projection of the end-of-period reconciliation balance, as well as the seasonal calculation of the Transition Cost Factor, which shall be included in a semiannual DAF filing. Also, the seasonal Transition reconciliation balances shall be filed along with the other reconciliation balances included in the DACC.~~

~~**7.05 Interruptible Transportation Margins Allowable for DACC**~~

~~**7.05.01 Purpose**~~

~~The purpose of this provision is to establish a procedure that allows Essex Gas Company subject to the jurisdiction of the Department to adjust, on a seasonal basis, the Interruptible Transportation Margin credit applicable to firm gas sales and transportation throughput in order to return to firm ratepayers the portion of interruptible transportation margins allocated to the local distribution function.~~

~~**7.05.02 Applicability**~~

~~The Interruptible Transportation Margin Credit (ITMC) shall be applied to all firm sales and transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 7.05 of this clause. However, if the total annual interruptible transportation credits exceed a predetermined Threshold Level established in D.P.U. 93-141-A, then only seventy-five percent of capacity release credits earned in excess of this Threshold Level will be credited back to core sales and transportation customers. The Threshold Level will be based on a historical 12 month period ending April 30 of each year. The economic benefit is defined as the difference between the revenue and the marginal cost determined to serve non-core customers. Such ITMC shall be determined seasonally by the Company as defined below, subject to review and approval by the Department as provided for in this clause.~~

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~~**7.05.03 Effective Date**~~

~~The Peak ITMC shall become effective as of the first billing cycle of each peak period as designated by the Company. The off-peak ITMC shall become effective as of the first billing cycle of each off-peak period as designated by the Company.~~

~~**7.05.04 Definitions**~~

~~(1) Peak Period for Essex Gas Company is the six consecutive month of November through April.~~

~~(2) Off-Peak Period for Essex Gas Company is the six consecutive month of May through October.~~

~~**7.05.05 Interruptible Transportation Margin Credit Formula**~~

~~**Peak ITMC Credit Formula**~~

$$\cancel{ITMCp = \frac{ITMp}{P:TPvol} + RFpitm}$$

~~and:~~

$$\cancel{RFpitm = \frac{Rpitm}{P:TPvol}}$$

~~**Where**:~~

~~ITMCp Peak period InterruptibleTransportation Margin Credit.~~

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~~ITMp Interruptible Transportation Margins allocated to the peak period.~~

~~RFpitm Peak interruptible transportation margin reconciliation adjustment factor applicable to total firm sales and transportation throughput.~~

~~Rpitm Reconciliation Costs - peak interruptible transportation margins, Account 175.5 balance, inclusive of the associated Account 175.5 interest.~~

~~P:TPvol Forecast peak period firm sales and transportation throughput.~~

~~**Off-Peak ITMC Credit Formula**~~

$$\cancel{ITMCop = \frac{ITMop}{P:TOPvol} + RFopitm}$$

~~and:~~

$$\cancel{RFopitm = \frac{Ropitm}{P:TOPvol}}$$

~~**Where**:~~

~~ITMCop Off-Peak period Interruptible Transportation Margin Credit.~~

~~ITMopInterruptible Transportation Margins allocated to the off-peak period.~~

~~RFopitm Off-Peak interruptible transportation margin reconciliation adjustment factor applicable to total firm sales and transportation throughput.~~

~~Ropitm Reconciliation Costs - off-peak interruptible transportation margins, Account 175.5 balance, inclusive of the associated Account 175.5 interest.~~

~~P:TOPvol Forecast off-peak period firm sales and transportation throughput.~~

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~~**7.05.06 Reconciliation Adjustments**~~

~~Account 175.5 shall contain the accumulated difference between revenues toward interruptible transportation margins as calculated by multiplying the interruptible transportation margin factor (ITMF) times monthly firm sales and transportation throughput and interruptible transportation margin allowed.~~

~~**7.05.07 Application of ITMC to Bills**~~

~~The ITMC ($ per therm) shall be calculated to the nearest one-hundredth of a cent per therm and will be applied to the monthly firm sales and transportation throughput.~~

~~**7.05.08 Information to be filed with the Department**~~

~~Information pertaining to the Interruptible Transportation Margins will be filed with the Department along with the gas cost information as required pursuant to the CGAC and DACC. Required filings include a monthly report providing actual data and resulting updated projection of the end-of-period reconciliation balance, as well as the seasonal calculation of the ITM, which shall be included in a semiannual DAF filing. Also, the seasonal Interruptible Transportation Margin reconciliation balances shall be filed along with the other reconciliation balances included in the DACC.~~

~~**7.06 Unbundling Collaborative Costs Allowable for DACC**~~

~~**7.06.01 Purpose**~~

~~The purpose of this provision is to establish a procedure that allows Essex Gas Company subject to the jurisdiction of the Department to adjust, on an annual basis, its rates for the recovery from its~~

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~~firm sales and transportation customers unbundling costs associated with the Company's participation in the Massachusetts Gas Unbundling Collaborative.~~

~~**7.06.02 Applicability**~~

~~The Unbundling Cost charge (UC) shall be applied to all firm sales and transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 7.06 of this clause. Such UC shall be determined annually by the Company as defined below, subject to review and approval by the Department as defined below, subject to review and approval by the Department as provided for in this clause.~~

~~**7.06.03 Unbundling Cost Allowable for DACC**~~

~~All costs associated with the Company's participation in the Massachusetts Gas Unbundling Collaborative, including but not limited to any legal, consulting, materials, customer education/advertising, and facilities expenses, may be included in the LDAC as approved by the Department~~

~~**7.06.04 Effective Date**~~

~~Prior to the beginning of the billing month of May of each year, the Company will file with the Department for its consideration and approval, the Company's request for a change in the UC applicable to all firm sales and transportation throughput for the subsequent twelve month period commencing with the billing month of May.~~

~~**7.06.05 Definitions**~~

~~(1) **Number of Days Lag** is the number of days lag to calculate the purchased gas working capital requirement as defined in the Company's most recent rate case.~~

~~(2) **Tax rate** is the combined state and federal income tax rate.~~

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~~(3) **Weighted Cost of Capital** is the weighted cost of capital as set in the Company's most recent rate case.~~

~~(4) **Weighted Cost of Debt** is the weighted cost of debt as set in the Company's most recent rate case.~~

~~(5) **Unbundling Costs** are all costs associated with the Company's participation in the Massachusetts Gas Unbundling Collaborative, including but not limited to any legal, consulting, materials, customer education/advertising, and facilities expenses, may be included in the LDAC as approved by the Department.~~

~~**7.06.06 Unbundling Cost (UC) Factor Formula**~~

$$\cancel{UCF = \frac{UC + RAuc}{A: TPvol} + WCF_{UC}}$$

~~**and:**~~

$$\cancel{WCF_{uc} = \frac{\dfrac{(WCA_{uc}\ x\ CC) - (WCA_{uc}\ x\ CD)}{1 - TR} + (WCA_{uc}\ x\ CD) + WCR_{uc}}{A: TPvol}}$$

~~**and:**~~

$$\cancel{WCA_{UC} = UC\ x\ \frac{(DL)}{365}}$$

~~**Where:**~~

~~A:TPvol Forecast Annual Throughput Volumes inclusive of all firm sales and transportation throughput.~~

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~~UC Unbundling Costs as defined in Section 7.06.05.~~

~~WCA_{UC} Working Capital Unbundling Costs Allowable for working capital applications as defined in Section 7.06.07.~~

~~WCF_{UC} Per Unit Working Capital Factor allowable per billed annual throughput volume as defined in Section 7.06.07.~~

~~WCR_{UC} Working Capital Reconciliation adjustment associated with unbundling cost charges - Account 142.6~~

~~RA_{UC} Unbundling Cost Reconciliation Adjustment - Account 175.6, inclusive of the associated Account 175.6 interest, as outlined in Section 7.06.06.~~

~~CC Weighted Cost of Capital~~

~~CD Weighted Cost of Debt~~

~~TR Combined Tax Rate~~

~~**7.06.07 Unbundling Cost Working Capital Allowance**~~

~~(1) **UC Working Capital Allowance Calculation**~~

~~The unbundling cost working capital allowance shall be calculated as follows: First, Unbundling Cost Working Capital Requirement is multiplied by the Weighted Cost of Capital Rate to arrive at a Return on Unbundling Cost Working Capital Requirement. Next, the Interest Portion of the Return on Unbundling Cost Working Capital is calculated by multiplying the Unbundling Cost Working Capital Requirement amount by the Weighted Cost of Debt Rate. This amount is then subtracted from the Return on Unbundling Cost Working Capital to arrive at a Taxable Income Base. The Taxable Income Base is divided by the reciprocal of the combined effective federal and state tax rate to arrive at the Return Requirement Plus Taxes. The sum of the Return Requirement Plus Taxes and the interest~~

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~~portion of the Return on Unbundling Cost Working Capital is the total Unbundling cost Working Capital Allowance. This total divided by annual sales volumes equals the per unit Working Capital Factor.~~

~~(2) **UC Working Capital Formulas:**~~
~~As set forth in Section 7.06.06.~~

~~(3) **UC Working Capital Reconciliation Adjustment**~~
~~Account 142.60 shall contain the accumulated difference between the revenues toward unbundling cost working capital allowance and the actual monthly unbundling cost working capital allowance costs as calculated from the actual unbundling costs.~~

~~**7.06.08 Reconciliation Adjustments**~~

~~Account 175.6 shall contain the accumulated difference between revenues toward unbundling costs as calculated by multiplying the unbundling cost factor (UCF) times monthly firm sales and transportation throughput and unbundling costs allowed.~~

~~**7.06.09 Application of TCF to Bills**~~
~~The UCF ($ per therm) shall be calculated to the nearest one-hundredth of a cent per therm and will be applied to the monthly firm sales and transportation throughput.~~

~~**7.06.10 Information to be filed with the Department**~~
~~Information pertaining to the Unbundling Costs will be filed with the Department along with the gas cost information as required pursuant to the CGAC and DACC. Required filings include a monthly report providing actual data and resulting updated projection of the end-of-period reconciliation balance, as well as the seasonal calculation of the Unbundling Cost Factor, which shall be included in a semiannual DAF filing. Also, the seasonal Unbundling reconciliation balances shall be filed along with the other reconciliation balances included in the DACC.~~

~~**7.07 Demand Side Management Factor**~~

~~**7.07.01 Purpose**~~

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~~The purpose of this provision is to establish a procedure that allows Essex Gas Company subject to the jurisdiction of the Department to adjust, on an annual basis, its rates for the recovery from its firm sales and transportation customers costs associated with its Demand Side Management and Market Transformation Programs, as approved by the Department.~~

~~**7.07.02Applicability**~~

~~The Demand Side Management (DSM) charge shall be applied to all firm sales and transportation throughput of the Company subject to the jurisdiction of the Department as determined in accordance with the provisions of Section 7.07 of this clause. Such DSM charge shall be determined annually by the Company as defined below, subject to review and approval by the Department as provided for in this clause.~~

~~**7.07.03 Demand Side Management Costs Allowable for DACC**~~

~~All costs as defined and approved by the Department, including: (1)Demand Side Management Program and Market Transformation Costs; (2) Demand Side Management and Market Transformation Lost Margins, (3) Working Capital allowances for DSM costs and (4) the Reconciliation Adjustment associated with over or under recoveries of allowable DSM costs billed in prior periods.~~

~~**7.07.04 Effective Date**~~

~~Prior to the beginning of the billing month of November of each year, the Company will file with the Department for its consideration and approval, the Company's request for a change in the DSMC applicable to all firm sales and transportation throughput for the subsequent twelve month period commencing with the billing month of November.~~

~~**7.07.05 Definitions**~~

~~(1) **Number of Days Lag** is the number of days lag to calculate the purchased gas working capital requirement as defined in the Company's most recent rate case.~~

~~(2) **Tax rate** is the combined state and federal income tax rate.~~

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~~(3) **Weighted Cost of Capital** is the weighted cost of capital as set in the Company's most recent rate case.~~

~~(4) **Weighted Cost of Debt** is the weighted cost of debt as set in the Company's most recent rate case.~~

~~(5)**Demand Side Management costs** are costs incurred by the Company to develop, promote, administer, implement and evaluate demand side management and market transformation programs as approved by the Department.~~

~~**(6)Lost Margins** are margins lost as a result of the implementation of DSM measures, calculated by identifying total volumes of gas saved as a result of DSM measures, times the margin that would have been earned on those volumes less any avoided costs.~~

~~**7.07.06 Demand Side Management (DSM) Factor Formula**~~

~~$PC_i + WCA_i + RA_i + LM_i$~~

7.05 ~~DSMF~~ Pension Costs and Post-Retirement Benfits Other Than Pensions Allowable for LDAC

6.06 FERC Order 636 Transition Costs Allowable for LDAC

6.07 Exogenous Costs Allowable for LDAC

6.09 Effective Date of Local Distribution Adjustment Factor

6.10 Definitions

6.11 Local Distribution Adjustment Factor Formulae

6.12 Reconciliation Adjustments - Accounts 175

6.13 Reconciliation Adjustments - Accounts 142 - Working Capital

6.14 Application of LDAF to Bills

6.15 Information Required to be Filed with the Department

6.16 Other Rules

6.17 Customer Notification

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6.01 Purpose

The purpose of the Local Distribution Adjustment Clause ("LDAC") is to establish a procedure that allows Boston Gas Company, Essex Gas Company and Colonial Gas Company, all d/b/a KeySpan Energy Delivery New England ("Company"), subject to the jurisdiction of the Department of Telecommunications and Energy ("Department") to adjust, on an annual basis, its rates to recover costs associated with Transition Costs, Demand Side Management programs and related working capital, Environmental Response Costs associated with manufactured gas plants, Pension costs and Post-Retirement Benefits Other than Pensions, Exogenous Costs allowed in accordance with the terms of the rate plan approved in Eastern/Colonial Acquisition, D.T.E. 98-128 (1999) , Unbundling costs associated with the Massachusetts Gas Unbundling Collaborative, and to credit to all core ratepayers with the Economic Benefit associated with interruptible transportation service that is not included in the base rates as determined in Boston Gas Company's, Essex Gas Company's and Colonial Gas Company's last respective rate cases, and to credit, balancing penalty revenues to all firm customers.

6.02 Applicability

The LDAC applies to all tariffed throughput volumes on the Company's system, except as otherwise designated herein. See Section 6.16, "Other Rules".

6.03 Demand Side Management CostsAllowable for LDAC

All costs as defined and approved by the Department, including: (1) Demand Side Management Program and Market Transformation Costs; (2) Demand Side Management and Market Transformation Lost Margins, (3) Demand Side Management Incentives (4) Working Capital allowances for DSM costs and (5) the Reconciliation Adjustment associated with over or under recoveries of allowable DSM costs billed in prior periods.

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6.04 Environmental Response Costs Allowable for LDAC

All environmental response costs associated with manufactured gas plants, adjusted for deferred tax benefits, and one half of the expenses incurred by Boston Gas Company, Essex Gas Company and Colonial Gas Company, respectively, in pursuing insurance and third party claims, less one half of the recoveries received by Boston Gas Company, Essex Gas Company and Colonial Gas Company, respectively, as a result of such claims may be included in the LDAC.

6.05 Unbundling Costs Allowable for LDAC

All costs associated with the Company's participation in the Massachusetts Gas Unbundling Collaborative, including but not limited to any legal, consulting, materials, customer education/advertising, and facilities expenses, may be included in the LDAC as approved by the Department.

6.06 Pension Costs and Post-Retirement Benefits Other Than Pensions Allowable for the LDAC

All costs associated with pensions and post-retirement benefits other than pensions ("PBOPs") and the reconciliation of pension and PBOP expense amounts included in Boston Gas Company's distribution rates with the total expense amounts booked by Boston Gas Company pursuant to FAS 87 and FAS 106 may be included in the LDAC as approved by the Department

6.07 FERC Order 636 Transition Costs Allowable for LDAC

All costs as defined and approved by the FERC, other than those transition costs pertaining to Account No. 191, including: (1) gas supply realignment or GSR costs; (2) stranded costs; and (3) new facilities costs, may be included in the LDAC.

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6.08 Exogenous Costs Allowable for LDAC

Any individual cost change beyond the Company's control that exceeds $250,000 in a particular year, in accordance with the Rate Plan for Colonial Gas Company, approved in Eastern/Colonial Acquisition, D.T.E. 98-128, at 55-56 (1999), may be included in the LDAC as approved by the Department

6.09 Effective Date of Local Distribution Adjustment Factor

The date on which the annual Local Distribution Adjustment Factors ("LDAF") become effective will be the first day of the annual period designated by the Company. Unless otherwise required by the Department, the Company shall submit LDAF filings as outlined in Section 6.15 of this clause at least 45 days before they are to take effect and Remediation Adjustment Clause ("RAC") filings at least 90 days before they are to take effect.

6.10 Definitions

As used herein, the terms set forth below are defined as follows:

(1) Number of Days Lag is the number of days lag to calculate the working capital requirements for LDAC allowable expenses as approved by the Department.

(2) NonFirm Transportation Credit is the Economic Benefit derived from interruptible transportation not included in base rates, to be allocated to total firm throughput.

(3) Economic Benefit is the difference between the revenue from and the marginal cost determined to provide interruptible transportation.

(4) Tax Rate is the combined state and federal income tax rate.

(5) Weighted Cost of Capital is the weighted cost of capital as set in Boston Gas Company's most recent base rate case.

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(6) Cost of Debt is the weighted cost of debt as set in Boston Gas Company's most recent base rate case.

(7) Cost of Equity is the weighted cost of equity as set in Boston Gas Company's most recent base rate case.

(8) Environmental Response Costs includes all costs of investigation, testing, remediation, litigation expenses, and other liabilities relating to manufactured gas plant sites, disposal sites, or other sites onto which material may have migrated, as a result of the operating or decommissioning of Massachusetts gas manufacturing facilities.

(9) Deferred Tax Benefit is the unamortized portion of actual Environmental Response Costs multiplied by the effective statutory federal and state income tax rate and by the Company's tax adjusted cost of capital as defined in Section 6.10.

(10) Expenses and recoveries associated with insurance and third-party claims shall include fifty percent of the expenses incurred and fifty percent of any net recoveries or other benefits received by the Company as a result of such claims.

(11) DSM Program Costs are Demand Side Management program costs as approved by the Department.

(12) DSM Incentive Costs are incentives earned by the Company and approved by the Department.

(13) DSM Lost Margins are margins lost as a result of the implementation of DSM measures, calculated by identifying total volumes of gas saved as a result of DSM measures, times the margin that would have been earned on those volumes less any avoided costs.

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(14) Annual Period Reconciliation Date for the Company will be coincident to the next annual period LDAF filing, 45 days prior to the next annual period effective date.

(15) Transition Costs are costs associated with the implementation of FERC Order 636 including (1) gas supply realignment or GSR costs, (2) stranded costs and (3) new facilities costs.

(16) Nonfirm Transportation Capacity Credits are the benefits derived from nonfirm transportation services that are not included in base rates.

(17) Unbundling Costs (UC) are all costs associated with the Company's participation in the Massachusetts Gas Unbundling Collaborative, including but not limited to any legal, consulting, materials, customer education/advertising, and facilities expenses as approved by the Department.

(18) Balancing Penalties are penalties charged to transportation customers and third pary gas suppliers for over or under deliveries on the Company's gas system.

(19) Pension Costs are all costs associated with Boston Gas Company's Pension Plans as determined by the SFAS-87 each year, and as approved by the Department in Boston Gas Company's most recent test-year.

(20) Post Retirement Benefits Other Than Pensions are the costs associated with PBOP as determined by SFAS-106 and as approved by the Department, and the PBOP transition obligation amortized over ten years.

(21) Pension Plan is a Qualified Pension Plan, as defined by ERISA.

(22) Post Retirement Plan Other Than Pension Plan is a Qualified PBOP, as defined by ERISA.

(23) ERISA is the Employee Information Retirement Income Security Act of 1974, as amended from time to time.

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(24) Pre-Paid Amount is the difference between: (1) the actual cash contributions to the Pension Plan and the PBOP Plan and (2) the expense amounts recognized in accordance with FAS 87 and FAS 106

(25) Prior Year is the calendar year previous to the effective date of a proposed Pension and PBOP Reconciliation Adjustment Factor.

(26) Reconciliation Deferral is the difference between: (1) the total pension and PBOP expense amounts included in Boston Gas Company's base rates; and (2) the total expense amounts booked by Boston Gas Company in the Prior Year in accordance with the requirements of FAS 87 and FAS 106.

(27) Exogenous Costs (EC) shall include any individual cost change beyond the Company's control that exceeds $250,000 in a particular year, consistent with the Rate Plan approved by the Department in D.T.E. 98-128.

6.11 Local Distribution Adjustment Factor Formulae

The Annual LDAF shall be comprised of an annual Sector Specific Demand Side Management Factor (DSMF), a Low Income Demand Side Management Factor (LIDSMF), a Transition Cost Factor (TCF), a NonFirm Transportation Capacity Credit (NFTF), a Balancing Penalty Credit Factor () (BPCF), a Remediation Adjustment Factor (RAF), an Unbunbling Cost Factor (UCF), an Exogenous Cost Factor/Lost Margin (ECLMF) and a Pension and Pension Benefits Other than Pensions Reconciliation Adjustment Factor (PRAF) calculated at the beginning of the annual season according to the following formulae:

LDAF Formula Applicable to Rate Tariffs M.D.T.E. Nos. 101-199

$$LDAF = DSMFi + LIDSMF + TCF + NFTF + BPCF + RAF_w + UCF + PRAF$$

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LDAF Formula Applicable to Rate Tariffs M.D.T.E. Nos. 201-299

LDAF = DSMFi + LIDSMF +TCF+ NFTF + BPCF+RAFx + UCF

LDAF Formula Applicable to Rate Tariffs M.D.T.E. Nos. 301-399

LDAF = DSMFi + LIDSMF +TCF + NFTF + BPCF+RAFy + UCF + ECLMFy

LDAF Formula Applicable to Rate Tariffs M.D.T.E. Nos. 401-499

LDAF = DSMFi + LIDSMF +TCF + NFTF + BPCF + UCF + ECLMFz

Sector Specific Demand-Side Management Factor (DSMFi) Formulae

$$DSMFi = \frac{DSMi + DSMRAi + DSMINi + DSMWCFi}{A:TPvoli}$$

and:

$$DSMWCFi = \frac{\frac{(DSMWCAi * CC) - (DSMWCAi * CD)}{(1 - TR)} + (DSMWCAi * CD) + DSMWCRi}{A:TPvoli}$$

and:

$$DSMWCAi = \frac{(DSMi) * (DL/365)}{\cancel{A:TP_{vol\ i}}}$$

Where:

$$\cancel{WCA_i = \frac{(WCR_{DSMi} \times CC) - (WCR_{DSMi} \times CD)}{1 - TR} + (WCR_{DSMi} \times CD) + WCR_{DSMi}}$$

~~and:~~

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~~WCR_{DSM} = PC_i x DL/365~~

~~and:~~

~~PC = Demand Side Management and Market Transformation Program Costs approved by the Department, including direct costs for the Residential, Residential Low Income, Multi-family and Commercial/Industrial Programs, Program Evaluation and Market Assessment costs and Program Support costs.~~

~~WCA = Working Capital Allowance for the Demand Side Management and Market Transformation costs.~~

~~RA = The Reconciliation Adjustments associated with over or under recoveries of DSM costs billed in prior periods.~~

~~LM = Lost Margins associated with the reductions in throughput resulting from the implementation of Demand Side Management Programs.~~

~~A:TP_{vol} = Forecast Annual Throughput Volumes inclusive of all firm sales and transportation throughput.~~

~~WCR = Working Capital Requirement for Demand Side Management and Market Transformation Program Costs.~~

~~CC = Weighted Cost of Capital~~

~~CD = Weighted Cost of Debt~~

~~**DL = Average Days Lag**~~

~~TR = Combined Tax Rate.~~

~~i = Billing Classes to which the DSMF applies: Residential, and Commercial/Industrial.~~

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~~7.07.07 Demand Side Management Working Capital Allowance~~

~~(1)DSM Working Capital Allowance Calculation~~

~~The Demand Side Management working capital allowance shall be calculated as follows: First, Demand Side Management Working Capital Requirement is multiplied by the Weighted Cost of Capital Rate to arrive at a Return on Demand Side Management Working Capital Requirement. Next, the Interest Portion of the Return on Demand Side Management Working Capital is calculated by multiplying the Demand Side Management Working Capital Requirement amount by the Weighted Cost of Debt Rate. This amount is then subtracted from the Return on Demand Side Management Working Capital to arrive at a Taxable Income Base. The Taxable Income Base is divided by the reciprocal of the combined effective federal and state tax rate to arrive at the Return Requirement Plus Taxes. The sum sof the Return Requirement Plus Taxes and the interest portion of the Return on Demand Side Management Working Capital is the total Demand Side Management Working Capital Allowance. This total divided by annual firm throughput volumes equals the per unit Working Capital Factor.~~

~~(2) DSM Working Capital Formula~~

~~As set forth is Section 7.07.06.~~

~~(3) DSM Working Capital Reconciliation Adjustment~~

~~Account 142 shall contain the accumulated difference between the revenues toward demand side management working capital allowances and the actual monthly demand side management working capital allowance as calculated from the actual demand side management costs. Account 142.22 shall contain the balances for the Residential DSM Program, and Account 142.26 the Commercial/Industrial Program.~~

~~7.07.08Reconciliation Adjustments~~

~~Account 175 shall contain the accumulated difference between revenues toward demand side management costs as calculated by multiplying the demand side management factor (DSMF) times the monthly firm sales and transportation throughput, and the demand side management costs allowed. Account 175.22 shall contain the balances for the Residential DSM Program, and Account 175.26 the Commercial/Industrial Program.~~

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~~**7.07.09 Application of DSMF to Bills**~~

~~The DSMF ($ per therm) shall be calculated to the nearest one-hundredth of a cent per therm and will be applied to the monthly firm sales and transportation throughput.~~

~~**7.07.10 Information to be filed with the Department**~~

~~Information pertaining to the Demand Side Management costs will be filed with the Department as required pursuant to the DACC. Required filings include a monthly report providing actual data and resulting updated projection of the end-of-period reconciliation balance, as well as the seasonal calculation of the Demand Side Management Factor, which shall be included in an annual DAF filing. Also, the annual Demand Side Management reconciliation balances shall be filed along with the other reconciliation balances included in the DACC.~~

~~**7.08 Effective Date of Distribution Adjustment Factor**~~

~~The peak DAF shall become effective as of the first billing cycle of each peak period as designated by the Company. The off-peak DAF shall become effective as of the first billing cycle of each off-peak period as designated by the Company.~~

~~**7.09 Definitions**~~

~~(1) Peak Period for Essex Gas is the six consecutive months of November through April.~~

~~(2) Off-Peak Period for Essex Gas is the six consecutive months of May through October.~~

~~**7.10 Distribution Adjustment Factor Formulas**~~
~~The DAF shall be calculated on a semiannual basis, by customer class, by summing up the various factors included in the DACC.~~

~~**Peak DAF Formula**~~

~~DAF_p^x = RAC + TCF + ITMFp + UCF + DSMF~~

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~~**Where**:~~

~~DAF_p*~~ ~~Peak period class specific Distribution Adjustment Factor~~
~~ITMFp~~ ~~Peak period Interruptible Transportation Margin Factor~~
~~RAC~~ ~~Total firm Annualized Remediation Adjustment Charge~~
~~TCF~~ ~~Total firm Annualized Transition Cost Factor~~
~~UCF~~ ~~Total Annualized Unbundling Cost Factor~~
~~DSMF~~ ~~Total Annualized Demand Side Management Cost Factor~~

~~**Off-Peak DAF Formula**~~

~~DAF_{op}* = RAC + TCF + ITMFop + UCF + DSMF~~

~~**Where**:~~

~~DAF_{op}*~~ ~~Off-peak period Distribution Adjustment Factor~~
~~ITMFop~~ ~~Off-peak period Interruptible Transportation Margin Factor~~
~~RAC~~ ~~Total firm Annualized Remediation Adjustment Charge~~
~~TCF~~ ~~Total firm Annualized Transition Cost Factor~~
~~UCF~~ ~~Total Annualized Unbundling Cost Factor~~
~~DSMF~~ ~~Total Annualized Demand Side Management Cost Factor~~

~~**7.11 Application of DAF to Bills**~~

~~The DAFs ($ per therm) for each Rate Category shall be calculated to the nearest one one-hundredth of a cent per therm and will be applied to the monthly firm sales and transportation throughput for each customer in a Rate Category.~~

~~**7.12 Information Required to be Filed with the Department**~~

~~Information pertaining to all the components of the Distribution Adjustment Factor is to be filed with the Department as specified in Sections 7.04.10, 7.05.08, 7.06.10 and 7.07.10.~~

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~~7.13 Other Rules~~

~~(1) The Department may, where appropriate, on petition or on its own motion, grant an exception from the provisions of these regulations, upon such term that it may determine to be in the public interest.~~

~~(2) The Company may, at any time, file with the Department an amended DACC. An amended DACC filing must be submitted 10 days before the first billing cycle of the month in which it is proposed to take effect.~~

~~(3) The Department may, at any time, require the Company to file an amended DACC.~~

~~(4) The operation of the cost of distribution adjustment~~ i: The residential or commercial/industrial sector

DSMi: Demand Side Management programs designed to conserve load annually in the residential and commercial/industrial sector

DSMRAi: Annual DSM Reconciliation Adjustment - Account 175.22 and 175.26 balances, inclusive of the associated interest, as outlined in Section 6.12

DSMINi: Demand Side Management incentives for the residential and commercial/industrial sector

DSMWCF: Working Capital allowed per billed annual throughput volumes associated with DSM Charges allocated annually as defined in Section 6.13

DSMWCA: Charges allowable for working capital allocation as defined in Section 6.13

DSMWCR: Working Capital reconciliation adjustment associated with annual DSM charges - Account 142.22 and 142.26 balances as outlined in Section 6.13

A:Tpvoli: Annual Throughput volumes for residential or commercial/industrial sector

Low Income Demand-Side Management Factor (LIDSMF) Formulae

$$LIDSMF = \frac{LIDSM + LIDSMRA + LIDSMIN}{A:TPvol} + LIDSMWCF$$

and:

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$$LIDSMWCF = \frac{\frac{(LIDSMWCA * CC) - (LIDSMWCA * CD)}{(1 - TR)} + (LIDSMWCA * CD) + LIDSMWCR}{A:TPvol}$$

and:

$$LIDSMWCA = (LIDSM) * (DL/365)$$

Where:

LIDSM: Demand Side Management programs designed to conserve load annually available to qualifying Low Income Residential Customers

LIDSMRA: Annual LIDSM Reconciliation Adjustment - Account 175.31 balance, inclusive of the associated interest, as outlined in Section 6.12

LIDSMIN: Demand Side Management incentives for the low income sector

LIDSMWCF: Working Capital allowed per billed annual throughput volumes associated with LIDSM Charges allocated annually as defined in Section 6.13

LIDSMWCA: Charges allowable for working capital allocation as defined in Section 6.13

LIDSMWCR: Working Capital reconciliation adjustment associated with annual LIDSM charges - Account 142.22 balance as outlined in Section 6.13

A:TPvol: Annual forecasted throughput volumes inclusive of all sales and transportation throughput.

Transition Cost Factor (TCF)Formulae

$$TCF = TC + RAtc + WCFtc$$

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A:TPvol

and:

$$WCFtc = \frac{\dfrac{(WCAtc * CC) - (WCAtc * CD)}{(1 - TR)} + (WCAtc * CD) + WCRtc}{A:TPvol}$$

and:

$$WCAtc = TC * (DL/365)$$

Where:

TC: Transition costs as defined in Section 6.10

Ratc: Transition cost reconciliation adjustment - Account 175.46 balance, inclusive of the associated Account 175.46 interest, as outlined in section 6.12

A:TPvol: Annual forecasted throughput volumes inclusive of all sales and transportation throughput.

WCFtc: Per unit working capital allowable per billed annual throughput volume as defined in section 6.13.

WCAtc: Transition costs allowable for working capital application as defined in section 6.13.

WCRtc: Working capital reconciliation adjustment associated with transition cost charges - Account 142.46 balance as outlined in section 6.13.

CC: Weighted Cost of Capital as defined in section 6.10.

CD: Weighted Cost of Debt as defined in section 6.10.

TR: Combined Tax Rate as defined in section 6.10.

DL: Number of Days Lag from the purchase of gas from suppliers to the payment by customers.

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Annual NonFirm Transportation Credit Factor (NFT) Formulae:

$$\textbf{NFT} = \frac{NFT + RAnft}{A{:}Tpvol}$$

and:

$$\textbf{WCFtc} = \frac{\dfrac{(WCAnft * CC) - (WCAnft * CD)}{(1 - TR)} + (WCAnft * CD) + WCRnft}{A{:}TPvol}$$

Where:

NFT: Nonfirm transportation margin as defined in section 6.10.

A:Tpvol: Annual forecasted throughput volumes inclusive of all sales and transportation throughput

RAnft: Nonfirm transportation capacity credit reconciliation adjustment - Account 175.42 balance, inclusive of the associated Account 175.42 interest, as outlined in section 6.12.

WCAnft: Transition costs allowable for working capital application as defined in section 6.13.

WCRnft: Working capital reconciliation adjustment associated with transition cost charges - Account 142.42 balance as outlined in section 6. 13.

CC: Weighted Cost of Capital as defined in section 6.10.

CD: Weighted Cost of Debt as defined in section 6.10.

TR: Combined Tax Rate as defined in section 6.10.

DL: Number of Days Lag from the purchase of gas from suppliers to the payment by customers.

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Annual Balancing Penalty Credit Factor (BPC) Formulae:

$$BPC = \frac{BPR}{A:Tpvol}$$

Where:

BPR: Balancing Penalty Revenues as defined in section 6.10.

A:Tpvol: Annual forecasted throughput volumes inclusive of all sales and transportation throughput

Remediation Adjustment Factor (RAF) Formulae

$$RAF_{w,x,y} = \frac{sum(ERC/7) - DTB + ((I.E. - IR) * .5) + Rrac}{A:TPvol}$$

and:

DTB = UERC * TR * (CD + (CE / (1 - TR)))

Where:

RAF: Remediation adjustment factor.

ERC: Environmental response costs as defined in Section 6.10.

UERC: Unamortized environmental response costs.

DTB: Deferred tax benefit associated with environmental response costs as defined in section 6.10.

I.E.: Expenses associated with pursuit of insurance carriers and third-parties as defined in section 6.10.

IR: Insurance carrier and third-party recoveries as defined in section 6.10.

Rrac: Remediation Adjustment Clause reconciliation adjustment - Account 175.9 balance as outlined in Section 6.12.

A:Tpvol: Annual forecasted billed through-put volumes inclusive of sales and transportation.

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w: Applicable to Rate Tariffs M.D.T.E. Nos. 101-199

x: Applicable to Rate Tariffs M.D.T.E. Nos. 201-299

y: Applicable to Rate Tariffs M.D.T.E. Nos. 301-399

Unbundling Costs Factor (UCF) Formulae:

$$UCF = \frac{UC + RAuc + WCFuc}{A{:}Tpvol}$$

And:

$$WCFuc = \frac{\frac{(WCAuc * CC) - (WCAuc * CD)}{(1 - TR)} + (WCAuc * CD) + WCRuc}{A{:}TPvol}$$

and:

$$WCAuc = UC * (DL/365)$$

Where:

UC: Unbundling costs as defined in Section 6.10.

RAuc Unbundling cost reconciliation adjustment - Account 175.66 balance, inclusive of the associated Account 175.66 interest, as outlined in section 6.12.

A:TPvol Annual forecasted throughput volumes inclusive of all sales and transportation throughput.

WCFuc Per unit working capital allowable per billed annual throughput volume as defined in section 6.13.

WCAuc Unbundling costs allowable for working capital application as defined in section 6.13.

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WCRuc Working capital reconciliation adjustment associated with unbundling cost charges - Account 142.66 balance as outlined in section 6.13.

CC Weighted Cost of Capital as defined in section 6.10.

CD Weighted Cost of Debt as defined in section 6.10.

TR Combined Tax Rate as defined in section 6.10.

DL: Number of Days Lag from the purchase of gas from suppliers to the payment by customers.

Pension and Post-Retirement Benefits Other than Pensions Reconciliation Adjustment Factor (PRAF) Formula

$$PRAF_{xt} = \frac{(PEXP + PBOBEXP + APDA + RA_t + cc(URD_t + APPA_t + APBOP - DTA_t) + PPRA_t)}{A:Tpvol}$$

Where:

PRAF = The annual Pension/PBOP Reconciliation Adjustment Factor.

PEXP = The amount of Pension Expense to be recovered through the LDAC as allowed by the Department in Boston Gas Company's most recent rate case.

PBOPEXP = The amount of PBOP Expense to be recovered through the LDAC as allowed by the Department in Boston Gas Company's most recent rate case.

APDA = The Accumulated PBOP Deferral Amortization is the amount of Boston Gas Company's unamortized PBOP transition obligation outstanding on December 31, YEAR t, amortized over a THREE year period. The APDA will be a fixed amount recovered over a THREE-year period beginning on November 1, YEAR t+1 and ending on October 31, YEAR t+3.

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RA_t = The Reconciliation Adjustment for $Year_t$ is one-third of the Unamortized PENSION Reconciliation Deferral at the end of the Prior Year.

cc = The Cost of Capital is the tax-effected weighted-average cost of capital as defined in Section 6.10.

URD_t = The Unamortized Reconciliation Deferral Pension is the amount of the Pension Reconciliation Deferral not yet included in distribution rates. At the beginning of $Year_t$ the Unamortized Reconciliation Deferral is the sum of: (1) the Unamortized Reconciliation Deferral at the beginning of the Prior Year; plus (2) the Reconciliation Deferral for the Prior Year; minus (3) the Reconciliation Adjustment for the Prior Year.

$APPA_t$ = The Average Pre-Paid Amount, for $Year_t$ is one half of the sum of: (1) the Pre-Paid Amount recorded on Boston Gas Company's books as of the beginning of the Prior Year; and (2) the Pre-Paid Amount recorded on Boston GasCompany's books as of the end of the Prior Year.

APBOP = The unamortized Reconiliation Deferral not yet included in distribution rates. At the beginning of Yearx the Unamortized Reconciliatio n Deferral is the sum of: (1) the Unamortized Reconciliation Deferral at the beginning ofthe Prior Year; plus (2) the Reconciliation Deferral for the Prior Year;minus (3) the Reconciliation Adjustment for the Prior Year.

DTA_t = The Deferred Tax Amount is the deferred taxes associated with the Pre-Paid Amount and the URD at the end of the Prior Year.

$PPRA_t$ = The Past Period Reconciliation Amount is the difference between: (1) the amount of PRAF revenue that should have been collected in the Prior Year; and (2) the amount of PRAF revenue actually received by Boston GasCompany in the Prior Year.

A:Tpvol = Annual forecasted throughput volumes inclusive of all sales and transportation throughput.

x = Applicable to Rate Tariff M.D.T.E. Nos. 101 - 199

t = The current year.

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Exogenous Cost / Lost Margin Factor (ECLMF)

The ECFLMF shall be calculated according to the following formula:

For Rate Tariffs M.D.T.E. Nos. 301 – 399 and 401 - 499

$$ECLMFi_{y,z} = \frac{ECi + LMi + ECLMRAi}{A:TPvoli}$$

Where:

i: The residential or commercial/industrial sector

ECi: Exogenous costs for the residential and commercial/industrial sector

LMi: Lost Margins for the residential and commercial/industrial sector

ECLMRAi: Annual Exogenous Cost/Lost Margin Reconciliation Adjustment - Account 175.34 and 175.yy balances, inclusive of the associated interest, as outlined in Section 6.13

A:TPvoli: Annual forecasted throughput volumes inclusive of all sales and transportation throughput.

y: Applicable to Rate Tariffs M.D.T.E. Nos. 301-399

z: Applicable to Rate Tariffs M.D.T.E. Nos. 401-499

6.12 Reconciliation Adjustments – Accounts 175

(1) The Following definitions pertain to reconciliation adjustment calculations:

(a) Demand Side Management Costs Allowable Per Annual Residential DSM Formula shall be:

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i. Charges associated with Residential DSM programs designed to reduce annual load for each sector (DSMi).
ii. Incentives associated with Residential DSM programs (DSMINi).
iii. Account 175.22 - Annual Residential DSM, interest charges.

(b) Demand Side Management Costs Allowable Per Annual Commercial and Industrial DSM Formula shall be:
i. Charges associated with C&I DSM programs designed to reduce annual load for each sector (DSMi).
ii. Incentives associated with C&I DSM programs (DSMINi).
iii. Account 175.26 – Annual C&I DSM, interest charges.

(c) Demand Side Management Costs Allowable Per Annual Low Income DSM Formula shall be:
i. Charges associated with Low Income DSM programs designed to reduce annual load (LIDSM)
ii Incentives associated with Low Income DSM programs (LIDSMIN).
iii. Account 175.31 - Annual Low Income DSM interest charges.

(d) Transition Costs Allowable shall be:
i. The costs as defined and approved by the FERC, including (1) gas supply realignment or GSR costs; (2) stranded costs, and; (3) new facilities costs (TC).
ii. Account 175.46 – Annual Transition Costs interest charges

(e) Unbundling Costs Allowable Per Annual Unbundling Formula shall be:
i. Costs associated with the Massachusetts Unbundling Collaborative.
ii. Account 175.66 - Annual Unbundling Costs interest charges.

(f) Nonfirm Transportation Capacity Credits Allowable Per Annual Nonfirm Transportation Formula shall be:
i. Credits associated with nonfirm transportation capacity credits not included in base rates.

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ii. Account 175.42 - Annual Nonfirm transportation capacity credit interest charges.

(g) Remediation Adjustment Clause Expenses Allowable shall be:
i. One seventh of each calendar year's environmental response costs (ERC) as defined in section 6.10, less the deferred tax benefit (DTB) as defined in section 6.10.
ii. One-half of insurance and third-party expenses (I.E.), less one-half of insurance and third-party recoveries.

.

(h) Pension Adjustment Clause Expences Allowable Shall be:
i. Costs associated with Boston GasCompany's Pension Plan
ii. Costs associated with Boston GasCompany's Post-Retirement Plan Other Than Pension Plan
iii. Account 175.35 annual pension interest costs

(i) Exogenous Cost and Lost Margin Expenses Allowable shall be:
i. Costs identified as Exogenous costs in accordance with DTE 98-128
ii. Costs associated with Colonial Gas Company's lost margin
iii. Account 175.34 annual exogenous cost and lost margin interest costs

(2) Calculation of the Reconciliation Adjustments

Account 175 contains the accumulated difference between annual costs and revenues for residential DSM (Account 175.22), annual commercial and industrial DSM (Account 175.26), annual Low Income DSM (175.31), Transition Cost (175.46), Nonfirm Transportation Capacity Credits (175.42), Unbundling Costs (Account 175.66), Pension and PBOP Costs (175.35), annual Exogenous Cost and Lost Margin (175.yy) and manufactured gas remediation (Account 175.9). Account 175.22 shall contain the accumulated difference between revenues toward residential DSM costs as calculated by multiplying the annual residential DSM factor times monthly residential throughput volumes. Account 175.26 shall contain the accumulated difference between revenues

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toward commercial and industrial DSM costs as calculated by multiplying the annual commercial and industrial DSM factor times monthly commercial and industrial throughput volumes each month. Account 175.31 shall contain the accumulated difference between revenues toward Low Income DSM costs as calculated by multiplying the annual Low Income DSM factor times total monthly throughput volumes. Account 175.46 shall contain the accumulated difference between revenues toward transition costs as calculated by multiplying the transition cost factor times monthly firm throughput volumes and transition costs allowed. Account 175.42 shall contain the accumulated difference between credits from nonfirm transportation capacity as calculated by multiplying the nonfirm transportation capacity credit factor times monthly firm throughput volumes and nonfirm transportation capacity credits allowed. Account 175.66 shall contain the accumulated difference between revenues toward unbundling costs as calculated by multiplying the unbundling cost factor times monthly firm throughput volumes and unbundling costs allowed. Account 175.9 shall contain the accumulated difference between revenues toward environmental response costs as calculated by multiplying the RAF times monthly firm through put volumes and environmental response costs allowable per formula. Account 175.35 shall be the cumulative difference between the revenue toward the pension and PBOP costs as calculated by multiplying the Pension and PBOP Reconciliation Adjustment Factor times monthly firm throughput volumes and the total Pension and PBOP reconciliation expense amounts booked by Boston Gas Company in the Prior Year in accordance with the requirements of SFAS 87 and SFAS 106. Account 175.yy shall contain the accumulated difference between revenues toward Exogenous Cost and Lost Margins as calculated by multiplying the annual Exogenous Cost/Lost Margin factor times monthly throughput volumes.

The annual residential DSM reconciliation adjustment (DSMRAi - as defined in Section 6.11) shall be determined for use in the annual residential LDAF calculations incorporating the annual residential DSM account (175.22) balance as of the annual reconciliation date as designated by the Company. The-annual commercial and industrial DSM reconciliation adjustment (DSMRAi - as defined in Section **6.11**) shall be determined for use in the annual commercial and industrial LDAF calculations incorporating the annual commercial and industrial DSM account (175.26) balance as of

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the annual reconciliation date as designated by the Company. The Low Income DSM reconciliation adjustment (LIDSMRA - as defined in Section **6.11**) shall be determined for use in the annual residential and commercial/industrial LDAF calculations incorporating the annual Low Income DSM account (175.31) balance as of the annual reconciliation date as designated by the Company. The transition cost reconciliation adjustment (RAtc - as defined in Section 6.11) shall be determined for use in the annual LDAF calculations incorporating the transition cost account (175.46) balance as of the annual reconciliation date as designated by the Company. The unbundling cost reconciliation adjustment (RAuc - as defined in Section 6.11) shall be determined for use in the annual LDAF calculations incorporating the unbundling cost account (175.66) balance as of the annual reconciliation date as designated by the Company. The nonfirm transportation capacity credit reconciliation adjustment (RAnft - as defined in Section 6.11) shall be determined for use in the annual LDAF calculations incorporating the nonfirm transportation capacity credit account (175.42) balance as of the annual reconciliation date as designated by the Company. A RAC reconciliation adjustment (Rrac - as defined in Section **6.11**) shall be determined for use in the RAC calculations incorporating the RAC account (175.9) balance as of the annual RAC reconciliation date. The Pension and PBOB reconciliation adjustment ($PPRA_t$ - as defined in Section 6.11) shall be determined for use in the annual LDAF calculations incorporating the Pension and PBOB account (175.35) balance as of the annual reconciliation date as designated by Boston GasCompany. The Exogenous Cost and Lost Margin reconciliation adjustment (ECLMRAi - as defined in Section 6.11) shall be determined for use in the annual LDAF calculations incorporating the exogenous costs and lost margin account (175.yy) balance as of the annual reconciliation date as designated by the Company.

(3) Calculation of the RAF

The RAF consists of one-seventh of the actual environmental response costs incurred by Boston GasCompany, Essex Gas Company and Colonial Gas Company, respectively, in any calendar year for each year until fully amortized, less a deferred tax benefit, plus one-half of insurance and third party expenses for the calendar year, less one-half of insurance and third party recoveries for the calendar year, plus the prior year's RAF reconciliation adjustment. This amount is then divided by Boston GasCompany's, Essex

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Gas Company's and Colonial Gas Company's respective forecast of total firm throughput volumes for the upcoming year.

The deferred tax benefit is calculated by (1) applying the combined state and federal tax rates to Boston Gas Company's, Essex Gas Company's and Colonial Gas Company's, respective, unamortized environmental response costs to arrive at the deferred tax. (2) The deferred tax is then multiplied by the tax adjusted cost of capital, calculated by dividing the weighted cost of equity by one minus the tax rate and adding it to the weighted cost of debt, to arrive at the deferred tax benefit.

6.13 Reconciliation Adjustments - Account 142 – Working Capital

(1) The following definitions pertain to reconciliation adjustment calculations:

(a) Working Capital Gas Costs Allowable Per Annual Residential DSM Formula shall be:

i. Charges associated with residential DSM programs designed to reduce annual load (DSMi).

ii. Account 142.22 interest charges.

(b) Working Capital Gas Costs Allowable Per Annual commercial and industrial DSM Formula shall be:

i. Charges associated with commercial and industrial DSM programs designed to reduce annual load (DSMi),

ii. Account 142.26 interest charges.

(c) Working Capital Gas Costs Allowable Per Annual Low Income DSM Formula shall be:

i. Charges associated with residential DSM programs designed to reduce annual load (LIDSM).ii.Account 142.31 interest charges.

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(d) Working Capital Gas Costs Allowable Per Annual Nonfirm Transportation Capacity Credit Formula shall be:

i. Credits associated with nonfirm transportation capacity credits non included n base rates.

ii. Account 142.42 interest charges

(e) Working Capital Costs Allowable Per Transition Cost Formula shall be:

i The transition charges defined and approved by the FERC, including (1) gas supply realignment or GSR costs;

(2) stranded costs, and;

(3) new facilities cost

ii. Account 142.46 interest charges.

(f) Working Capital Costs Allowable Per Unbundling Cost Formula shall be :

i. Costs associated with Massachusetts Unbundling Collaborative.

ii. Account 142.66 interest charges.

(2) The annual transition cost, unbundling costs, nonfirm transportation capacity credit, residential DSM and commercial and industrial DSM working capital requirements shall be calculated by applying the Company's days lag divided by 365 days to the working capital costs allowable per each formula defined above.

(3) The annual transition cost, unbundling costs, nonfirm capacity credit, residential DSM, and commercial and industrial DSM working capital allowances shall each be calculated by applying the Company's weighted cost of capital to each working capital requirement (2) to calculate the respective returns on working capital. The interest portion of each working capital allowance is calculated by multiplying each working capital requirement (2) by the weighted cost of debt. This portion is tax deductible. The return on each working capital less the interest portion of each

working capital is then divided by one minus the tax rate. This figure plus the interest calculated above equals the working capital allowance for each.

(4) Calculation of the Reconciliation Adjustments

Accounts 142.22, 142.26, 142.31, 142.42 ,142.46 and 142.66 contain the accumulated difference between working capital allowance revenues and the actual monthly working capital allowance costs as calculated from actual monthly costs for the Company. Each Account 142 shall contain the accumulated difference between revenues toward the working capital allowance and the working capital allowance.

An annual residential DSM working capital reconciliation adjustment (DSMWCRi - as defined in Section 6.11) shall be determined for use in the annual residential DSM factor calculations incorporating the annual residential DSM working capital account (142.22) balance as of the annual reconciliation date designated by the Company. An annual commercial and industrial DSM working capital reconciliation adjustment (DSMWCRi - as defined in Section 6.11) shall be determined for use in the annual commercial and industrial DSM factor calculations incorporating the annual commercial and industrial DSM working capital account (142.26) balance as of the annual reconciliation date designated by the Company. An annual Low Income DSM working capital reconciliation adjustment (LIDSMWCR - as defined in Section 6.11) shall be determined for use in the off-annual residential DSM factor calculations incorporating the annual Low Income DSM working capital account (142.31) balance as of the annual reconciliation date designated by the Company. A transition cost working capital reconciliation adjustment (WCRtc - as defined in Section 6.11) shall be determined for use in the transition cost factor calculations incorporating the transition cost working capital account (142.46) balance as of the annual reconciliation date designated by the Company. A nonfirm transportation capacity credit working capital reconciliation adjustment (WCRnft - as defined in Section 6.11) shall be determined for use in the nonfirm transportation capacity credit factor calculations incorporating the nonfirm transportation capacity credit working capital account (142.42) balance as of the annual reconciliation date designated by the Company.

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An unbundling cost working capital reconciliation adjustment (WCRuc - as defined in Section 6.11) shall be determined for use in the unbundling cost factor calculations incorporating the unbundling cost working capital account (142.66) balance as of the annual reconciliation date designated by the Company.

6.14 Application of the LDAF to Bills

The Company will employ the LDAFs as follows:

For all customers, the annual rates to customers shall be calculated by adding the annual Transition Cost Factor, Remediation Adjustment Factor, the NonFirm Transportation Credit Factor, the Unbundling Cost Factor, the Balancing Penalty Credit Factor), the Pension/PBOP Reconciliation Adjustment Factor, the Exogenous Cost/Lost Margin Factor, the Low Income DSM Factor, and the Sector Specific DSM factor for each sector. The annual LDAFs ($/therm) for each sector shall be calculated to the nearest hundredth of a cent per unit and will be applied to each customer's monthly sales volumes.

6.15 Information Required to be Filed with the Department

Information pertaining to the local distribution factor adjustment shall be filed with the Department in accordance with the standardized forms approved by the Department. Required filings include a monthly report which shall be submitted to the Department on the twentieth of each month, and a annual LDAF filing which shall be submitted to the Department at least 45 days before the date on which a new LDAF is to be effective, and an annual RAC filing which shall be submitted to the Department at least 90 days before the date on which the new LDAF is to be effective.

Additionally, the Company shall file with the Department a complete list by (sub)account of all local distribution costs claimed as recoverable through the LDAC over the previous year, as included in the annual reconciliation. This information shall be submitted with

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each annual LDAF filing, along with complete documentation of the reconciliation adjustment calculations.

6.16 Other Rules

(1) The Department may where appropriate, on petition or on its own motion, grant an exception from the provisions of these regulations, upon such terms that it may determine to be in the public interest.

(2) The Company may, at any time, file with the Department an amended LDAF. An amended LDAF filing must be submitted 10 days before the first billing cycle of the month in which it is proposed to take effect.

(3) The Department may at any time require the Company to file an amended LDAF.

~~cost~~(4) The operation of the Local Distribution adjustment clause is subject to all powers of suspension and investigation vested in the Department by G.L. c. 164.

~~7.14~~6.17 Customer Notification

The Company will ~~design a notice which explains in simple terms to customers the DAF, the nature of any change in the DAF~~notify customers in simple terms of changes to the LDAF, including the nature of the change and the manner in which the LDAF is applied to the bill. ~~This notice can be a part of the Company's GAF notice. The~~In the absence of a standard format, the Company will submit ~~the DAF~~this notice for approval at the time of each~~DAF filing.~~

~~Upon~~LDAF filing. Upon approval by the Department, the Company must immediately distribute these notices to all of its customers either through direct mail or with its bills.

AMENDMENTS TO
UNIFORM SYSTEM OF ACCOUNTS FOR GAS COMPANIES

~~175.22~~175.22 Annual Residential ~~Demand Side Management~~DSM Reconciliation Adjustment for LDAC

This account shall be used to record the cumulative difference between annual ~~Residential Demand Side Management~~residential DSM revenues and annual ~~Residential Demand Side Management program~~residential DSM costs. Entries to this account shall be determined as outlined in the Local Distribution Adjustment Clause, 220 C.M.R. 6.10.

~~175.26Commercial/Industrial Demand Side Management~~175.26 Annual Commercial and Industrial DSM Reconciliation Adjustment for LDAC

This account shall be used to record the cumulative difference between annual ~~Commercial/Industrial Demand Side Management~~commercial and industrial DSM revenues and annual ~~Commercial/Industrial Demand Side Management program costs. .~~commercial and industrial DSM costs. Entries to this account shall be determined as outlined in the Local Distribution Adjustment Clause, 220 C.M.R. 6.10.

175.31 Annual Low Income DSM Reconciliation Adjustment for LDAC

This account shall be used to record the cumulative difference between annual Low Income DSM revenues and annual Low Income DSM costs. Entries to this account shall be determined as outlined in the Local Distribution Adjustment Clause, 220 C.M.R. 6.10.

175.35 Pension/PBOP Cost Reconciliation Adjustment for LDAC

This account shall be used to record the cumulative difference between Pension/PBOP revenues and Pension/PBOP costs. Entries to this account shall be determined as outlined in the Local Distribution Adjustment Clause, 220 C.M.R. 6.10.

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175.36 Exogenous Cost/Lost Margin Reconciliation Adjustment for LDAC
This account shall be used to record the cumulative difference between Exogenous Cost and Lost Margin revenues and costs. Entries to this account shall be determined as outlined in the Local Distribution Adjustment Clause, 220 C.M.R. 6.10.

175.42 Annual Nonfirm Transportation Capacity Credit for LDAC
~~C.M.R~~This account shall be used to record the cumulative difference between annual Nonfirm Transportation Capacity Credit refunds and annual Nonfirm Transportation Capacity Credits allowable. Entries to this account shall be determined as outlined in the Local Distribution Adjustment Clause, 220 C.M.R. 6.10.

175.46 Transition Cost Reconciliation Adjustment for ~~LDAC~~LDAF
This account shall be used to record the cumulative difference between FERC 636 transition cost revenues and FERC 636 transition~~gas~~ costs. Entries to this account shall be determined as outlined in the Local Distribution Adjustment Clause, 220 C.M.R. 6.10.

175.66 Unbundling Cost Reconciliation Adjustment for ~~LDAC~~LDAF
This account shall be used to record the cumulative difference between Unbundling revenues and Unbundling~~gas~~ costs. Entries to this account shall be determined as outlined in the Local Distribution Adjustment Clause, 220 C.M.R. 6.10.

175.9 Environmental Response Reconciliation Adjustment for LDAC
This account shall be used to record the cumulative difference between RAC revenues and RAC costs. Entries to this account shall be determined as outlined in the Local Distribution Adjustment Clause, 220 C.M.R. 6.10.

~~142.22 Residential Demand Side Management Working Capital Reconciliation Adjustment for LDAC~~
~~This account shall be used to record the cumulative difference between the annual Residential Demand Side Management working capital allowance revenues and the annual Residential Demand Side Management gas working capital allowance. Entries to this account shall be determined as outlined in the Local Distribution Adjustment Clause, 220 C.M.R 6.11.~~

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~~142.26Commercial/Industrial Demand Side Management Working Capital Reconciliation Adjustment for LDAC~~

142.22 Annual Residential DSM Working Capital Allowance Reconciliation Adjustment for LDAC.

This account shall be used to record the cumulative difference between annual ~~the Commercial/Industrial Demand Side Management~~residential DSM working capital allowance revenues and ~~the annual Commercial/Industrial Demand Side Management gas~~annual residential DSM working capital allowance. Entries to this account shall be determined as outlined in the Local Distribution Adjustment Clause, 220 C.M.R. 6.

142.26 Annual Commercial and Industrial DSM Working Capital Allowance Reconciliation Adjustment for LDAC

This account shall be used to record the cumulative difference between annual commercial and industrial DSM working capital allowance revenues and annual commercial and industrial DSM working capital allowance. Entries to this account shall be determined as outlined in the Local Distribution Adjustment ~~C.M.R142.46Transition Gas Working Capital Allowance Reconciliation Adjustment for LDAC~~ Clause, 220 C.M.R. 6.11.

142.31 Annual Low Income DSM Working Capital Allowance Reconciliation Adjustment for LDAC

This account shall be used to record the cumulative difference between annual Low Income DSM working capital allowance revenues and annual Low Income DSM working capital allowance. Entries to this account shall be determined as outlined in the Local Distribution Adjustment Clause, 220 C.M.R. 6.11.

142.42 Annual Nonfirm Transportation Capacity Credit Reconciliation Adjustment for LDAC

This account shall be used to record the cumulative difference between annual Nonfirm transportation capacity working capital allowance refunds and annual

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Nonfirm Transportation Capacity Credit working capital allowance. Entries to this account shall be determined as outlined in the Local Distribution Adjustment Clause, 220 C.M.R. 6.11.

142.46 Transition Cost Working Capital Allowance Reconciliation Adjustment for LDAF
This account shall be used to record the cumulative difference between transition ~~gas~~cost working capital allowance revenues and ~~tranisition gas~~transition cost working capital allowance. Entries to this account shall be determined as outlined in the Local Distribution Adjustment Clause, 220 C.M.R. 6.11.

142.66 Unbundling ~~Gas~~Cost Working Capital Allowance Reconciliation Adjustment for ~~LDAC~~LDAF
This account shall be used to record the cumulative difference between ~~Unbundling gas~~unbundling cost working capital allowance revenues and ~~Unbundling gas~~unbundling cost working capital allowance. Entries to this account shall be determined as outlined in the Local Distribution Adjustment Clause, 220 ~~C.M.R 6.11.~~C.M.R. 6.11